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~~AD/R~~ #4

28 Apr '55

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NOFORN

28 April 1955

MEMORANDUM FOR: Director, National Indications Center

SUBJECT : Economic Indicators of Hostilities in the
Formosa Straits

1. In accordance with your request to review and consolidate indications that we have supplied to you from 24 March through 22 April 1955, particularly those relating to Chinese Communist developments as indications of possible action in the Formosa Straits area, the enclosed analyses are being forwarded herewith.

2. The majority of economic indications are by nature general and long range; they may prove to be manifestations of normal economic growth. It is therefore, hazardous to draw conclusions solely on the basis of economic indications intelligence. Available economic intelligence of both long-range and short-range significance is summarized below.

a. Long-Range Indications

The extensive airfield construction program underway in the region between Shanghai and Canton, the apparently widespread restrictions on rail traffic and shortages of railroad equipment, the Chinese efforts to acquire POL products, the scheduling of substantial imports of antibiotics and other medical supplies throughout most of 1955, and the gradual build-up [REDACTED] appear to be relatively long-term developments of a greater magnitude than can be attributed to the present Chinese Communist rate of economic growth. The airfield construction program and the emphasis upon delivery of the 1955 quotas for imports of ambulances and medical supplies by the third quarter suggest very tentatively a fall target date.

b. Short-Range Indications

In addition to the more numerous indications of a longer range development, a number of occurrences seem to fall into a short-range category:

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- (1) An unpublicized civil aviation conference was convened in Peking on 18 April. Such an unusual procedure has no parallel other than the civil air conference immediately preceding Chinese entry into the Korean War.

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- (2) In the past month an increase in Chinese Communist water movements into the Foochow area from the north has been observed.

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- (3) Nantai airfield (Foochow) is expected to be ready for jet operations about 1 May 1955.

- (4) There will be a lull of about six weeks in tanker deliveries to China and/or the Soviet Far East following the mid-May arrival of the five tankers now enroute.

3. In conjunction with the above economic indicators of possible short range significance, we have noted two military developments which fall into the same time span:

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OTTO E. GOETHE
Assistant Director
Research and Reports

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Attachments

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RR/St/PR/C/ELA/HH:djs
27 April 1955

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Missing Indicators

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- 2 - II.B.1.c. General - Rail Transportation
- 3 - Pol - Transportation Sit. in Com. China

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Next 1 Page(s) In Document Exempt

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POL SITUATION - SOUTH CHINA
(Info date - Dec 1964-present)

There are a number of reports of renewed Chinese Communist interest in purchasing kerosene and diesel fuel through Hong Kong and Macao.

One report states that on approximately 1 December 1954, Chinese Communist agencies in Hong Kong made inquiries of three large oil companies there concerning purchases of kerosene, diesel fuel and motor oil. Reportedly about 3,000 drums of kerosene and 1,000 drums of diesel were required. A second report suggests that about 6,000 tons of diesel were required. Throughout January and February, pro-Nationalist press despatches from Macao indicated that the Chinese Communists were attempting to purchase kerosene and other products, offering above market prices. A news despatch of 9 February reported that a Chinese Communist trading agency had been recently authorized to purchase 1,800,000 tons of lubricants and 1,300 tons of diesel fuel. The American Consulate General at Hong Kong reported on 1 March that the Chinese Communists were intensifying efforts to obtain POL, chiefly through Macao.

It was also reported on 1 March by the Consulate General that the Communists were endeavoring to charter "several tankers to move kerosene and diesel to Pearl River ports and were offering premium rates." This report seems to have been borne out by the case of the Finnish tanker, ARUBA which recently turned back without delivering her cargo of kerosene to Whampoa. The Far East Enterprising Company of Hong Kong was apparently an intermediary in fixing the charter of the ARUBA.

the Finnish motor-tanker, PANRIO, was being offered for sale via the Far East Enterprising Company, for delivery at Whampoa with a cargo of kerosene from Constanta. It is not known whether this sale will or has taken place, especially in view of the ARUBA case, but it is noteworthy that on 18 April the PANRIO, en route to Constanta, passed Istanbul in ballast.

Our Comment: The Consulate General at Hong Kong observes in its telegram of 1 March that there has been a change from an easy POL supply position over the last two years to a sudden tight and apparently urgent position since December. The report states further that this is regarded by some as evidence of Chinese Communist stockpiling. It should be noted, however, that it would be difficult for the Chinese to obtain large quantities of POL from Hong Kong without a corresponding increase

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TOP SECRET EIDER

in shipments into Hong Kong, since POL stocks normally maintained there are relatively small (about three months supply).

According to the Consulate General, it is difficult to gauge quantities received by the Chinese; its estimate was 500 tons each of kerosene and light diesel fuel, smuggled chiefly through Macao since late 1954. In December the Consulate General reported that the fishing junks had resumed their old practice of pumping excess bunkers into oil drums at isolated piers in Macao and returning to Hong Kong under sail. This practice was widespread three years ago.

Although the amounts involved seem small from a direct military standpoint, the sudden demand for these products would appear to indicate at least a shortage for civilian consumption in the South China area. Such a shortage may be the result of diversion to the military.

Along with the increased demand for POL in the South China region, it is interesting to note that the total seaborne imports through Whampoa in 1954 (mainly in the last half of the year) were at least 43,000 tons in comparison with only 5,300 tons in 1953. A part of the POL tonnage imported through Whampoa in 1954 represents a diversion of ships to South China ports after the seizure of the Soviet tanker, TUAPSB, in June. Nevertheless, total seaborne imports of POL to China increased greatly in 1954 over 1953.

Sources: AIO, Hong Kong, Report No. IR 201 - 54, 30 Dec 54, c, Eval A-2
State, Hong Kong despatch no. 1019, 30 Dec 54, c
News summaries as follows:
Hua Chiao Jih Pao, Conservative, 7 Jan 55
Hsing Tao Jih Pao, Pro-Nationalist, 13 Jan 55
Hsing Tao Jih Pao, Pro-Nationalist, 6 Feb 55
Hsing Tao Jih Pao, Pro-Nationalist, 9 Feb 55
Hsing Tao Jih Pao, Pro-Nationalist, 15 Feb 55
State, Hong Kong, tel. no. 1708, 1 Mar 55, c
187A, 21 Mar 55, c
1911, 25 Mar 55, c
25X1D1a [REDACTED] 7 Jan 55, SECRET PIVOT
& NSA NAVADVB BERNERHAVEN No. 9969, 941245Z, April 55, c
M/P Estimate

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FORMOSA STRAITS - ECONOMIC - POL
(Info Date - Mid Feb 55)

In mid February 1955, about 100 road-tanker semi-trailers were observed near the Poonung Railway Work-shops (at mouth of the Yangtze River)

Source Comment: This suggests an increased capacity to transport bulk petroleum products by road and may reflect a build-up of POL in the East China area opposite Formosa.

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Next 1 Page(s) In Document Exempt

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SINO PRESSURE ON HONG KONG

There has been strong evidence since the first of the year of increased Chinese Communist pressure against Hong Kong and since the Air India plane crash there has been an upsurge of propaganda attacks, including hints of Chinese Communist reprisals, against Hong Kong. Moreover, the Chinese Communists have continued to increase their troop strength and military capabilities in the area threatening Hong Kong. Two major Hong Kong business and shipping firms reached a decision late last year to quit claim their extensive interests in China and are now in the process of transferring their interests from Hong Kong to Singapore and Australia.

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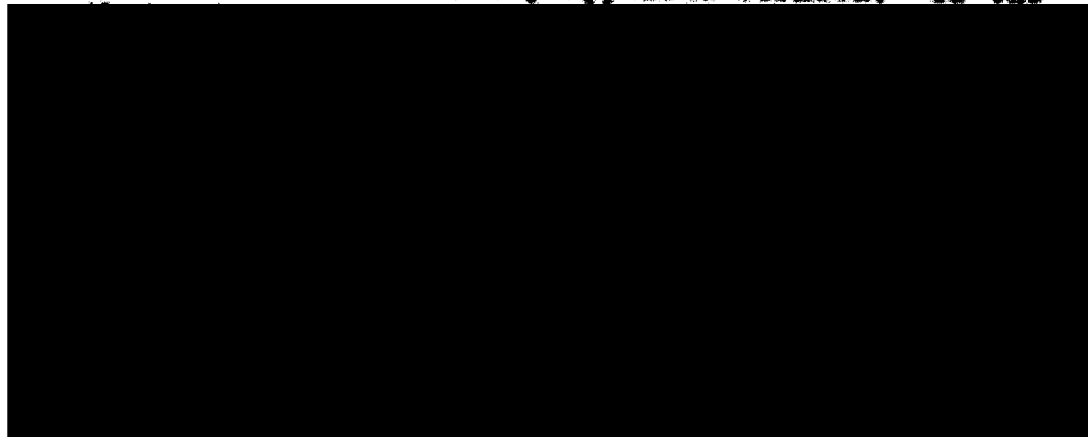
22 April 1955

AIRFIELD CONSTRUCTION AND DEVELOPMENT

Since 1 January 1955 the Chinese Communists have completed construction on and made operational three airfields in the Luchiao, Chuanien and Ningpo areas. In addition construction work is evidently underway on five new airfields directly opposite Formosa. To the

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22 April 1955

FORMOSA STRAIT - SHIPPING
(Info Date - 3-19 April 1955)

Since 3 April there have been indications that the Chinese Communists are taking advantage of the dark for water movements into the Lien and Hia River areas. A general increase in Chinese Communist vessel activity in the Hatsu area has been noted, and it is apparent that some of the vessels are engaged in moving supplies down the coast. An increase in the logistic support of forces in the Foochow area would logically be reflected by sea movements, including night operations.

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CONTINUED CONTROL

FORMOSA STRAITS - FISHING BOATS ORGANIZATION
(Info Date - Nov 54)

Reports

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describe the organization of fishing junks into units of battalions (100 boats), companies (30 boats) and teams (10 boats).

ORR Comment: The organization of coastal junks into such large units contrasts with traditional units organized for mutual assistance, numbering no more than five boats each. Although the Communist government has exerted control over the movement of fishing junks in the Formosa Straits for several years, the November organization into battalions and companies coincided with announcements from Peking that seamen on the Chekiang coast were pledged to "help the Peoples Liberation Army (PLA) cross the sea to liberate Taiwan and the coastal islands." Although no detailed information is available on the functions of these organizations, it seems clear that such large units would be more useful for military transport than for economic purposes.

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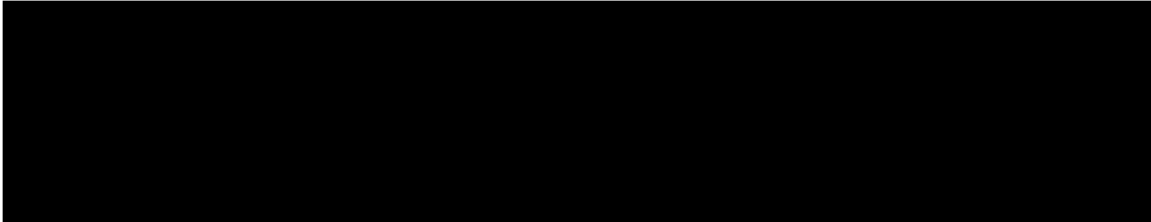
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A new NTS command established Hanchow Bay area.
Commanded by LIN Lun-hui, former C of S, Local Sq.
3 NTS Div. Command to consist of 1st, 2nd and 3rd
NTS Div. equipped with Soviet vessels.

Two PT boats anchored Anoy harbor --

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Next 1 Page(s) In Document Exempt

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2 April 1955

FORMOSA STRAITS - POSSIBLE COMMUNICATIONS DEVELOPMENTS

According to a recent report the Sachsenwerk Hudeberg plant in East Germany is building mobile micro-wave radio relay stations for export to Communist China. Nine "lines" are to be built for Communist China and each "line" is to consist of nine stations (relay and terminal stations). This indicates a total of 81 stations. The estimated capacity of the plant to produce mobile micro-wave stations is 21 per month at three shifts.

Other reports state that after the return from Communist China (early in December 1954) of Gerhard Hegla, a German specialist, the micro-wave assembly department of the above named plant started three-shift operations with some 500 employees. A test system installation consisting of terminal and relay stations, started approximately mid-October 1954, is supposed to have been finished about the end of January 1955.

Comment: Some speculative conclusions that may be drawn are:

1. Each "line" will cover distances of approximately 300 miles and provide about 3 voice channels and 48 telegraph channels.
2. These nine "lines" could possibly double the wireline trunk facilities that now exist in the East China area.
3. In the event of hostilities, these micro-wave stations could be installed quickly (4 hours) and bridge the gaps created by bombings.

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FORMOSA STRAITS - COMMUNICATIONS INSTALLATIONS

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[REDACTED]

two powerful radio station installations (50-150 kw.) approximately two miles apart in the area across the river from Minhou (Focchoh). One installation appears to use three antennas, one omni-directional and two directional. The other installation appears to use two directional antennas. The directional antennas of these installations point toward northern Formosa. Air Force evaluation of the antenna structure place the operation of these stations in the medium frequency range (radio-broadcasting).

Recent incomplete information, from the same type of source, indicates a similar radio installation under-construction in the Amoy area.

The purpose of these stations has not been determined. FBID states that these stations have not been heard in operation to date.

ORR Comment:

1. It is very doubtful that these stations with their high power and elaborate installations are for a single type of operation.
2. These stations with their directional antennas may be used to beam propaganda to Formosa.
3. They may possibly be used, at least to some extent, to jam foreign radio broadcasts directed to the Communist China mainland and directed to the people of Formosa. It is not anticipated that they will be used to jam military facilities since many of the military nets work on the high and very high frequencies.
4. In the event of an attack on Formosa these stations could be used for military purposes including the coordination of amphibious operations. It is doubtful that Communist China has adequate high and very high frequency (VHF) receiving facilities to equip the necessary landing craft for so large an undertaking as an attack on Formosa; therefore, these stations can easily be used to broadcast directions to and maintain control of amphibious operations. It would be difficult to effectively jam these stations when employed in this type of operation because of their capability to utilize many different frequencies.
5. These stations appear capable of communicating with submarines operating in this area.
6. These stations might also be used for broadcasting other military information and instructions.

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7. These station locations are so near the coast and area of activity as to make them vulnerable to air attack in the event of war. It is possible, however, that an amphibious attack on Formosa the employment of these facilities in coordinating the attack could be fulfilled before their destruction.

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FORMOSA STRAITS - CEMENT PLANT
(Info Date - Mar 1955)

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The chief of the ORR unit [redacted] reports that according to a recent radio announcement, the Fuchow cement plant is to go into production by the end of March. [redacted] inasmuch as the nearest existing plant is at Shanghai, there should be a substantial increase in Communist capabilities for heavy construction in the coastal area opposite Formosa. The plant is described as "huge" and had previously been reported as under construction.

ORR Comment: It is not clear whether this report refers to Foochow (Fukien) or Fuchow (Kiangsi). According to a Chinese Communist broadcast from Foochow on 21 Dec 54, construction of the first cement plant in Fukien Province was underway, but the site was not specified. On the other hand, study of aerial photo coverage of the Foochow area taken during January and February did not disclose any indication of a cement plant in the area. Moreover, no evidence of water shipments of cement plant equipment has been detected; rail service to either Foochow or Fuchow does not exist, and it is felt that trucking in the necessary equipment would hardly be feasible. Raw materials are readily available at both sites, but Foochow, Fukien is the more logical site, not only because of the 21 Dec broadcast mentioned above, but also because of the advantage of locating a new plant near water transport, both for moving in equipment and transporting the product readily.

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PENICILLIN IMPORTS

It is known that substantial shipments of penicillin to China were made in 1954, probably somewhat in excess of minimum peacetime civilian and military requirements. Sizable shipments have continued during 1955 from both Bloc and Western sources.

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GENERAL - IMPORT OF SURGICAL GLOVES

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[REDACTED]

The 1955 total represents a major increase over the 1954 total order from Czechoslovakia of 320,000 pairs, of which only 280,000 were apparently delivered. (A 40,000 carryover is known to be included in the scheduled 1955 figure of 583,000.) It is likely that China imports surgical gloves from sources other than Czechoslovakia, but no information on deliveries from other sources is immediately available.

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ORR Comment: The number of surgical gloves [REDACTED] is far in excess of normal demands from China's 30,000 (est.) licensed physicians. Although medical schools have expanded rapidly, only 11,000 doctors and 52,000 medical assistants were trained during 1950-54. At present China's medical schools have an enrollment of 30,000 students.

While the stepped-up delivery schedule of these items for 1955, may have military significance, it may also merely reflect a growing effort to instill modern sanitation practices and equipment among public health workers, whose numbers have been estimated as high as 600,000 individuals. This group includes midwives, nurses, re-trained herb doctors and other relatively unskilled medical workers who have been pressed into service because of the acute shortage of fully trained medical doctors.

[REDACTED]

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ARGON GAS

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[REDACTED]
China has contracted to purchase 3,500 cubic meters of Argon gas from Hungary -- to be delivered through the first three quarters of 1955.

Argon gas can be used: 1) as a filler for incandescent light bulbs, 2) as a rare atmosphere for electric welding, 3) in various casting operations. In addition, Argon gas can be used for florescent airfield runway lights. The 3,500 cubic meters is more significant since China's known 1954 imports were relatively negligible, probably not over 300 cubic meters.

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FORMALDEHYDE

China has been importing formaldehyde on a continuing basis. Recorded information shows they have received approximately 3,000 tons in the first four months of this year. Information regarding 1954 shipments is confused but it is felt that continuing imports at the rate of the first quarter of 1955 will result in 1955 imports exceeding 1954 imports.

Exporters have stated that China assures them the formaldehyde is for civilian consumption such as fumigation and plastics manufacture. Formaldehyde is also used for the production of RDX, one of the best explosives available and one which China is known to be producing. Hexamethylenetetramine, the RDX explosive intermediate made from formaldehyde imports, has also increased in 1955 over 1954.

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